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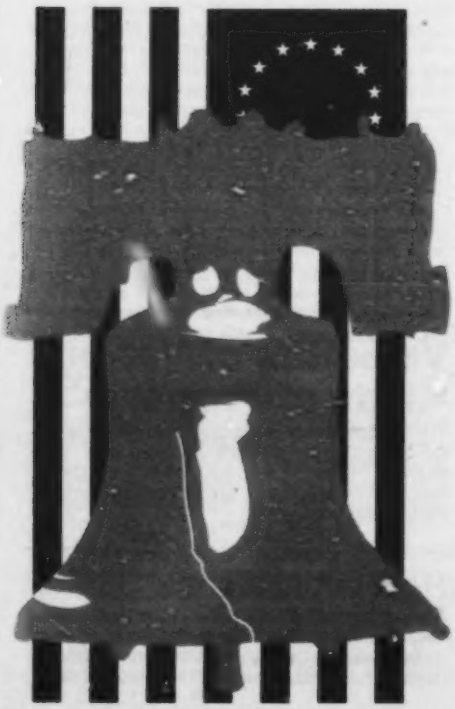
Determining the Value of Donated Property

Note: This publication has not been updated, but you can still use it to answer your questions. If there are any significant changes affecting the contents, they are explained in an addendum included with the publication. If you do not find all of your answers in this publication, please call the toll-free number for tax help shown in your phone directory under U.S. Government, Internal Revenue Service. If there is no number listed, call 1-800-829-1040.

The toll-free phone number for requesting free IRS forms and publications has changed. The new number is 1-800-TAX-FORM (1-800-829-3676).



Introduction

This publication is designed to help donors and appraisers determine the value of property (other than cash) that is given to qualified organizations. It includes the kind of information you must have to support the charitable contribution deduction you claim on your return.

Topics discussed in this publication include:

Fair market value, and how it is determined

Valuation of various kinds of property

Recordkeeping

Appraisals

For more information on charitable contributions, see Publication 526, *Charitable Contributions.*

Penalty. You may be liable for a penalty if you overstate the value or adjusted basis of donated property. The penalty is 30% of the underpayment of tax related to the overstatement. In general, you are liable for the penalty if:

The value or adjusted basis claimed on the return is 150% or more of the correct amount, and

You underpaid your tax by at least $1,000 because of the overstatement.

Free Publications and Forms

If you need information on a subject not covered in this publication, you may check our other free publications. To order publications and forms, call our toll-free telephone number 1-800-829-FORM (3676) or write the IRS Forms Distribution Center for your area as shown in the income tax package.

What Is Fair Market Value?

To figure how much you may deduct for property that you contribute, you must first determine its fair market value on the date of the contribution.

Fair market value generally is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

For example, if you give used clothing to the Salvation Army, the fair market value would be the price that typical buyers actually pay for clothing of this age, condition, style, and use. Usually, such items are worth far less than what you paid for them.

In making and supporting the valuation of property given to a qualified organization, all relevant factors affecting its value must be considered. These include the cost or selling price of the item, sales of comparable properties, replacement cost, and opinions of experts.

If you put a restriction on the use of property you donate, the fair market value must reflect that restriction. For example, if you donate land and restrict its use to agricultural purposes, you must value the land at its value for agricultural purposes, even though it would have a higher fair market value if it were not restricted.

Date of contribution. Ordinarily, the date of a contribution is the date that the transfer of the property takes place.

Stock. If you deliver, without any conditions, a properly endorsed stock certificate to a qualified organization, or the organization's agent, the date of the contribution is the date of delivery. If the certificate is mailed and received through the regular mail, it is the date of mailing. If you deliver the certificate to a bank or broker acting as your agent, or to the issuing corporation or its agent, for transfer into the name of the organization, the date of the contribution is the date the stock is transferred on the books of the corporation. This, in effect, is the date of delivery to the organization.

Options. If you grant an option to a qualified organization to purchase real property, you have not made a charitable contribution until the organization exercises the option. The amount of the contribution is the fair market value of the property on the date the option is exercised minus the exercise price.

Example. You grant an option to a local university, which is a qualified organization, to purchase real property. Under the option, the university could purchase the property at any time during a 2-year period for $40,000. The fair market value of the property on the date the option is granted is $50,000.

In the following tax year, the university exercises the option. The fair market value of the property on the date the option is exercised is $55,000. Therefore, you have made a charitable contribution of $15,000 ($55,000, the fair market value, minus $40,000, the exercise price) in the tax year the option is exercised.

Cost or Selling Price of the Donated Property

The cost of the property or the actual selling price may be the best indication of its fair market value. However, because conditions in the market change, the cost or selling price of property may have less weight if the property was not bought or sold reasonably close to the date of contribution.

The cost or selling price is a good indication of the property's value if:

The purchase or sale took place close to the valuation date in an open market,

The purchase or sale was at "arm's length,"

The buyer and seller knew all relevant facts,

The buyer and seller did not have to act, and

The market did not change between the date of purchase or sale and the valuation date.

Example. In 1987, Tom Morgan, who is not a dealer in gems, bought an assortment of gems for $5,000 from a promoter. The promoter claimed that the price was "wholesale" even though he and other dealers made similar sales at similar prices to other persons who were not dealers. The promoter said that if Tom kept the gems for more than one year and then gave them to charity, Tom could claim a charitable deduction of $15,000, which, according to the promoter, would be the value of the gems at the time of contribution. Tom gave the gems to a qualified charity 13 months after buying them and claimed a charitable deduction of $15,000.

The best evidence of fair market value depends on actual transactions and not on some artificial estimate. The $5,000 charged Tom and others is, therefore, the best evidence of the maximum fair market value of the gems.

The terms of the purchase or sale should be considered in determining fair market value if they influenced the price.

Unusual circumstances. Unless you can show that there were unusual circumstances, it is assumed that the increase or decrease in the value of your donated property from your cost has been at a reasonable rate. For time adjustments, an appraiser may consider published price indexes for information on general price trends, building costs, commodity costs, securities, and works of art sold at auction in arm's-length sales.

Example. Bill Brown bought a painting for $10,000. Thirteen months later he gave it to an art museum, claiming a charitable deduction of $15,000 on his tax return. The appraisal of the painting should include information showing that there were unusual circumstances that justify a

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50% increase in value for the 13 months Bill held the property.

Arm's-length offer. An arm's-length offer to buy the property close to the valuation date may help to prove its value if the person making the offer was willing and able to complete the transaction. To rely on an offer, you should be able to show proof of the offer and the specific amount to be paid. Offers to buy property other than the donated item will help to determine value if the other property is reasonably similar to the donated property.

Sales of Comparable Properties

The sales prices of properties similar to the donated property are often important in determining the fair market value. The weight to be given each sale depends on the following:

- The degree of similarity between the property sold and the donated property.
- The time of the sale—whether it was close to the valuation date.
- The circumstances of the sale—whether it was at arm's length with a knowledgeable buyer and seller, with neither having to act.
- The conditions of the market in which the sale was made—whether unusually inflated or deflated.

See the discussion of the comparable sales method of valuing real estate, later, under *Valuation of Various Kinds of Property.*

Example 1. Mary Black, who is not a book dealer, paid a promoter $10,000 for 500 copies of a single edition of a modern translation of the Bible. The promoter had claimed that the price was considerably less than the "retail" price, and gave her a statement that the books had a total retail value of $30,000. The promoter advised her that if she kept the Bibles for more than one year and then gave them to a qualified organization, she could claim a charitable deduction for the "retail" price of $30,000. Thirteen months later she gave all the Bibles to a church that she selected from a list provided by the promoter. At the time of her donation, wholesale dealers were selling similar quantities of Bibles to the general public for $10,000.

The fair market value of the Bibles is $10,000, the price at which similar quantities of Bibles were being sold to others at the time of the contribution.

Example 2. Assume the same facts as in Example 1, except that the promoter gave Mary Black a second option. The promoter said that if Mary wanted a charitable deduction within one year of the purchase, she could buy the 500 Bibles at the "retail" price of $30,000, paying only $10,000 in cash and giving a promissory note for the remaining $20,000. The principal and interest on the note would not be due for 12 years. According to the promoter, Mary could then, within one year of the purchase, give the Bibles to a qualified organization and claim the full $30,000 retail price as a charitable contribution. She purchased the Bibles under the second option and, 3 months later, gave them to a church, which will use the books for church purposes.

At the time of the gift, the promoter was selling similar lots of Bibles for either $10,000 or $30,000. The difference between the two prices was solely at the discretion of the buyer. The promoter was a willing seller for $10,000. Therefore, the value of Mary's contribution of the Bibles is $10,000, the amount at which similar lots of Bibles could be purchased from the promoter by members of the general public.

Replacement Cost

The cost of buying, building, or manufacturing property similar to the donated item should be considered in determining fair market value. However, there should be a reasonable relationship between the replacement cost and the fair market value.

The replacement cost is the amount it would cost to replace the donated item on the valuation date. Often there is no relationship between the replacement cost and the fair market value. If the supply of the donated property is more or less than the demand for it, the replacement cost becomes less important.

To determine the replacement cost of the donated property, find the "estimated replacement cost new." Then subtract from this figure an amount for depreciation due to the physical condition and obsolescence of the donated property. You should be able to show the relationship between the depreciated replacement cost and the fair market value, as well as how you arrived at the "depreciated replacement cost new."

Opinions of Experts

Generally, the weight given to an expert's opinion on matters such as the authenticity of a coin or a work of art, or the most profitable and best use of a piece of real estate, depends on the knowledge and competence of the expert and the thoroughness with which the opinion is supported by experience and facts. For an expert's opinion to deserve much weight, the facts must support the opinion. For additional information, see *Appraisals,* later.

Problems in Determining Fair Market Value

There are a number of problems in determining the fair market value of donated property.

Fixed Formulas, Rules, or Methods

Determining the value of donated property would be a simple matter if the appraiser could rely only on fixed formulas, rules, or methods. Usually it is not that simple. Using such formulas, etc., seldom results in an acceptable determination of fair market value. There is no single formula that always applies when determining the value of property.

This is not to say that a valuation is only guesswork. The appraiser must consider all the facts and circumstances connected with the property, such as its desirability, use, and scarcity.

For example, donated furniture should not be evaluated at some fixed rate such as 15% of replacement cost new. When the furniture is contributed, it may be out of style or in poor condition, therefore having little or no market value. On the other hand, it may be an antique whose value could not be determined by using any formula.

Unusual Market Conditions

The sale price of the property itself in an arm's-length transaction in an open market is often the best evidence of its value. When you rely on sales of comparable property, the sales must have been made in an open market. If those sales were made in a market that was artificially supported or stimulated so as not to be truly representative, the prices at which the sales were made will not indicate the fair market value.

For example, liquidation sale prices usually do not indicate the fair market value. Also, sales of stock under unusual circumstances, such as sales of small lots, forced sales, and sales in a restricted market, may not represent the fair market value.

Careless Selection of Comparable Sales

Using sales of comparable property is an important method for determining the fair market value of donated property. However, the amount of weight given to a sale depends on the degree of similarity between the comparable and the donated properties. The degree of similarity must be close enough so that this selling price would have been given consideration by reasonably well-informed buyers or sellers of the property.

Example. You give a rare old book to your former college. The book is a third edition and is in poor condition because of a missing back cover. You discover that there was a sale for $300, near the valuation date, of a first edition of the book that was in good condition. Although the contents are the same, the books are not at all similar because of the different editions and their physical condition. The selling price of the $300 property would be given little consideration by knowledgeable buyers or sellers.

Future Events

You may not consider unexpected events happening after your donation of property in making the valuation. You may consider only the facts known at the time of the gift, and those that could be reasonably expected at the time of the gift.

Example. You give farmland to a qualified charity. The transfer provides that your mother will have the right to all income and full use of the property for her life. Even though your mother dies one week after the transfer, the value of the property on the date it is given is its present value, subject to the life interest as estimated from actuarial tables. You may not take a higher deduction because the charity received full use and possession of the land only one week after the transfer.

Using Past Events to Predict the Future

A common error is to rely too much on past events to predict future earnings and fair market value.

Example. You give all your rights in a successful patent to your favorite charity. Your records show that before the valuation date there were three stages in the patent's history of earnings. First, there was rapid growth in earnings when the invention was introduced. Then, there was a period of high earnings when the invention was being exploited. Finally, there was a decline in earnings when competing inventions were introduced. While the entire history of earnings may be relevant in estimating the future earnings, the appraiser must not rely too much on the stage of rapid growth in earnings, or of high earnings. The market conditions at those times do not represent the condition of the market at the valuation date. What is most significant is the trend of decline in earnings up to the valuation date.

Valuation of Various Kinds of Property

This section contains information on determining the fair market value of ordinary kinds of donated property. For information on records you must keep and on appraisals, see *Recordkeeping* and *Appraisals,* later.

Household Goods

The fair market value of used household goods, such as furniture, appliances, and linens, is usually much lower than the price paid when new. Such used property may have little or no market value

because of its worn condition. It may be out of style or no longer useful. For these reasons, formulas, such as 15% of the replacement cost new, are not acceptable in determining value.

You should support your valuation with photographs, cancelled checks, or receipts from your purchase of the items. Magazine or newspaper articles and photographs that describe the items and statements by the recipients of the items are also useful. None of these items needs to be included with your tax return.

If the property is valuable because it is old or unique, see the discussion under *Paintings, Antiques, and Other Objects of Art.*

Used Clothing

Used clothing and other personal items are usually worth far less than the price you paid for them. Valuation of items of clothing does not lend itself to fixed formulas or methods.

You should claim as the value the price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops.

For valuable furs or very expensive gowns, an appraisal summary may have to be sent with your tax return.

Jewelry and Gems

Jewelry and gems, other than "costume" jewelry, are of such a specialized nature that it is almost always necessary to get an appraisal by a specialized jewelry appraiser. The appraisal should describe, among other things, the style of the jewelry, the cut and setting of the gem, and whether it is now in fashion. If not in fashion, the possibility of having the property redesigned, recut, or reset should be reported in the appraisal. The stone's coloring, weight, cut, brilliance, and flaws should be reported and analyzed. Sentimental personal value has no effect on fair market value. But if the jewelry was owned by a famous person, its value might increase.

Paintings, Antiques, and Other Objects of Art

Your deduction should be supported by a written appraisal from a qualified and reputable source, unless the item has a value of $500 or less. Examples of information that should be included in appraisals of art objects—paintings in particular—are found later under *Qualified Appraisal.*

Art valued at $20,000 or more. If you claim a deduction of $20,000 or more for donations of art made after 1987, you must attach a complete copy of the signed appraisal to your return. Include either a color photograph (no smaller than 8 inches × 10 inches) or a color transparency (no smaller than 4 inches × 5 inches).

The authenticity of the donated art must be determined by the appraiser. Certificates of authenticity may be useful, but this depends on the genuineness of the certificate and the qualifications of the authenticator.

Important items in the valuation of antiques and art are physical condition and extent of restoration. These have a significant effect on the value and must be fully reported in an appraisal. An antique in damaged condition, or lacking the "original brasses," may be worth much less than a similar piece in excellent condition.

Art appraisers are not experts on all art. More weight will usually be given to an appraisal prepared by an individual specializing in the kind and price range of the art being appraised. Certain art dealers or appraisers specialize, for example, in old masters, modern art, bronze sculpture, etc. Their opinions on the authenticity and desirability of such art would usually be given more weight than the opinions of more generalized art dealers or appraisers. They can report more recent comparable sales to support their opinion.

To identify and locate experts on unique, specialized items or collections, you may wish to use the current *Official Museum Directory* of the American Association of Museums. It has both a subject category and geographic index.

The *Encyclopedia of Associations,* Gale Research Company, is another useful starting point, particularly section 5, which describes educational organizations. Section 6 describes cultural organizations. Section 13 describes national hobby and avocational organizations, including various highly specialized private collector groups. It also has an alphabetical and key word index. These books may be available at state, city, college, or museum libraries.

To help you locate a qualified appraiser for your donation, you may wish to ask an art historian at a nearby college or the director or curator of a local museum. The Yellow Pages often list specialized art and antique dealers, auctioneers, and art appraisers. Associations of dealers also may be contacted for guidance.

Collections

So many kinds of hobby collections may be the subject of a charitable donation that it is not practical to discuss them all in this publication. Most common are rare books, autographs, manuscripts, stamps, coins, guns, phonograph records, and natural history items. Many of the elements of valuation that apply to paintings and other objects of art, discussed earlier, also apply to miscellaneous collections.

Reference material. Publications available to help you determine the value of many kinds of collections include catalogs, dealers' price lists, and specialized hobby periodicals. However, these sources are not always reliable indicators of fair market value.

For example, a dealer may sell an item for much less than is shown on a price list, particularly after the item has remained unsold for a long time. The price an item sold for in an auction may have been the result of a rigged sale or a mere bidding duel. The appraiser must analyze the reference material, and recognize and make adjustments for misleading entries. If you are donating a valuable collection, you should get an appraisal. If your donation appears to be of little value, you may be able to make a satisfactory valuation using reference materials available at a state, city, college, or museum library. If your local library does not have the necessary material, your librarian can often borrow it from the city or state library system.

Stamp collections. Most libraries have catalogs or other books that report the publisher's estimate of values. Generally, two price levels are shown for each stamp: the price postmarked and the price not postmarked. Stamp dealers generally know the value of their merchandise and are able to prepare satisfactory appraisals of valuable collections.

Coin collections. Many catalogs and other reference materials show the writer's or publisher's opinion of the current value of coins. Like many other collectors' items, the value of a coin depends on the demand for it, its age, and its rarity. Another important factor is the coin's condition. For example, there is a great difference in the value of a coin that is in mint condition and a similar coin that is only in good condition.

Catalogs indicate the physical condition of a coin—mint or uncirculated, extremely fine, very fine, fine, very good, good, fair, or poor—with a different valuation for each category.

Books. The value of books is usually determined by selecting comparable sales and adjusting the prices according to the differences between the comparable sales and the item being evaluated. This is difficult to do and, except for a collection of little value, should be done by a specialized appraiser. Within the general category of literary property, there are dealers who specialize in certain areas, such as Americana, foreign imports, Bibles, and scientific books.

If the collection you are donating is of modest value, not requiring a written appraisal, the following information may help you in determining the fair market value.

A book that is very old, or very rare, is not necessarily valuable. There are many books that are very old or rare, but that have little or no market value.

The condition of a book may have a great influence on its value. Collectors are interested in items that are in fine, or at least good, condition. When a book has a missing page, a loose binding, tears, stains, or is otherwise in poor condition, its value is greatly lowered.

Some other important factors in the valuation of a book are the kind of binding (leather, cloth, paper), page edges, and illustrations (drawings and photographs). Collectors usually want first editions of books. However, because of changes or additions, other editions are sometimes worth as much as, or more than, the first edition.

Manuscripts, autographs, diaries, and similar items that are handwritten, or at least signed, by famous people often are in demand and are valuable. The writings of unknowns also may be of value if they are of unusual historical or literary importance. Determining the value of such material is difficult. For example, there may be a great difference in value between two diaries that were kept by a famous person—one kept during childhood and the other during a later period in his or her life. The appraiser determines a value in these cases by applying knowledge and judgment to such factors as comparable sales and conditions.

Signatures, or sets of signatures, that were cut from letters or other papers usually have little or no value. But complete sets of the signatures of U.S. Presidents are in demand.

Cars, Boats, and Aircraft

If you donate a car, a boat, or an aircraft to a charitable organization, its fair market value must be determined.

Certain commercial firms and trade organizations publish monthly or seasonal guides for different regions of the country, containing complete dealer sale prices or dealer-average prices for recent model years. Prices are reported for each make, model, and year of used car, aircraft, truck, recreational vehicle, and boat. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and physical condition. The prices are not "official," and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

These publications are sometimes available from the loan officer at a bank, credit union, or finance company.

Except for inexpensive small boats, the valuation of boats should be based on an appraisal by a marine surveyor because the physical condition is so critical to the value.

Example. You donate your car to a local high school for use by students studying automobile repair. Your credit union told you that the "blue book" value of the car is $1,600. However, your car needs extensive repairs and, after some checking, you find that you would not be able to sell it for more than $750. You may deduct $750, the true fair market value of the car.

Inventory

If you donate inventory (property that you hold for sale in the course of your business), the fair market value is the price that you would have received if you had sold the contributed property in the market in which you usually sell at the time and place of the contribution. For a donation of goods in quantity, the fair market value is the price for the quantity contributed. The usual market of a manufacturer or other producer is the group of wholesalers or other distributors to or through whom sales are usually made. However, if sales are made only at retail, the usual market is the retail customer.

If you donate inventory at a time when you reasonably could not expect to get its usual selling price, the value of the gift is not the usual selling price but is the amount that you could have sold the property for at the time of the contribution.

Stocks and Bonds

The value of stocks and bonds is the fair market value of a share or bond on the valuation date. See *Date of contribution*, earlier, under *What Is Fair Market Value?*

Based on selling prices. If there is an active market for the contributed stocks or bonds on a stock exchange, in an over-the-counter market, or elsewhere, the fair market value of each share or bond is the mean of the highest and lowest quoted selling prices on the valuation date. For example, if the highest selling price for a share was $11, and the lowest $9, the mean is $10 (($11 + $9) ÷ 2).

If there were no sales on the valuation date, but there were sales within a reasonable period before and after the valuation date, the fair market value is determined by taking a weighted average of the means between the highest and lowest sales prices on the nearest date before and the nearest date after the valuation date. The average is to be weighted in ***inverse*** order by the respective number of trading days between the selling dates and the valuation date.

Example. On the day you gave stock to a qualified organization, there were no sales of the stock. Sales of the stock nearest the valuation date took place two trading days before the valuation date at a mean selling price of $10 and three trading days after the valuation date at a mean selling price of $15. The fair market value on the valuation date was $12, figured as follows:

$$[(3 \times \$10) + (2 \times \$15)] \div 5 = \$12$$

Stocks or bonds listed on more than one stock exchange are valued based on the prices of the exchange where they are principally dealt in. If these prices are not published in a generally available listing or publication of general circulation, and the stocks or bonds are reported on a composite listing of combined exchanges in a publication of general circulation, the composite list is used. See also *Unavailable prices or closely held corporation*, later.

Based on bid and asked prices. If there were no actual sales within a reasonable period before and after the valuation date, the fair market value is the mean between the bona fide bid and asked prices on the valuation date. If there were no prices available, the value may be determined by taking a weighted average of the means between the bona fide bid and asked prices on the closest trading date before and after the valuation date. Both dates must be within a reasonable period. The average should be weighted in ***inverse*** order by the respective number of trading days between the bid and asked dates and the valuation date.

Example. Although there were no sales of Blue Corporation stock on the valuation date, bona fide bid and asked prices were available on that date of $14 and $16, respectively. The fair market value is $15, the mean between the bid and asked prices.

If no actual selling prices or bona fide bid and asked prices are available on a date within a reasonable period before the valuation date, but are available on a date within a reasonable period after the valuation date, or vice versa, then the mean between the highest and lowest of such available prices may be treated as the value.

Large blocks of stock. When a large block of stock is put on the market, it may lower the selling price of the stock if the supply is greater than the demand. On the other hand, market forces may exist that will afford higher prices for large blocks of stock. Because of the many factors to be considered, determining the value of large blocks of stock usually requires the help of experts specializing in underwriting large quantities of securities, or in trading in the securities of the industry of which the particular company is a part.

Unavailable prices or closely held corporation. If selling prices or bid and asked prices are not available, or if securities of a closely held corporation are involved, the fair market value is to be determined by taking into consideration the following factors:

- For bonds, the soundness of the security, the interest yield, the date of maturity, and other relevant factors.
- For shares of stock, the company's net worth, prospective earning power and dividend-paying capacity, and other relevant factors.

Other relevant factors include the goodwill of the business, the economic outlook in the particular industry, the company's position in the industry, and the value of securities of corporations engaged in the same or similar business. For preferred stock, the most important factors are its yield and dividend coverage, and protection of its liquidation preference.

You should keep complete financial and other information on which the valuation is based, including copies of reports of examinations of the company made by accountants, engineers, or any technical experts on or close to the valuation date.

Restricted securities. Some classes of stock cannot be traded publicly because of restrictions imposed by the Securities and Exchange Commission, or by the corporate charter or a trust agreement. These restricted securities usually are traded at a discount in relation to freely traded securities.

To arrive at the fair market value of restricted securities, factors that must be considered include the resale provisions found in the restriction agreements, the relative negotiating strengths of the buyer and seller, and the market experience of freely traded securities of the same class as the restricted securities.

Real Estate

Because each piece of real estate is unique and its valuation is complicated, a detailed appraisal by a professional appraiser is necessary.

The appraiser must be thoroughly trained in the application of appraisal principles and theory. In some instances the opinions of equally qualified appraisers may carry unequal weight, such as when one appraiser has a better knowledge of local conditions.

The appraisal report must contain a complete description of the property, such as street address, legal description, and lot and block number, as well as physical features, condition, and dimensions. The use to which the property is put, zoning and permitted uses, and its potential use for other higher and better uses are also relevant.

In general, there are three main approaches to the valuation of real estate. An appraisal may require the combined use of two or three methods rather than one method only.

1. Comparable Sales

The comparable sales method compares the donated property with several similar properties that have been sold. The selling prices, after adjustments for differences in date of sale, size, condition, and location, would then indicate the estimated fair market value of the donated property.

If the comparable sales method is used to determine the value of ***unimproved real property*** (land without significant buildings, structures, or any other improvements that add to its value), the appraiser should consider the following factors when comparing the potential comparable property and the donated property:

- Location, size, and zoning or use restrictions,
- Accessibility and road frontage, and available utilities and water rights,
- Riparian rights (right of access to and use of the water by owners of land on the bank of a river) and existing easements, rights-of-way, leases, etc.,
- Soil characteristics, vegetative cover, and status of mineral rights, and
- Other factors affecting value.

For each comparable sale, the appraisal must include the names of the buyer and seller, the deed book and page number, the date of sale and selling price, a property description, the amount and terms of mortgages, property surveys, the assessed value, the tax rate, and the assessor's appraised fair market value.

The comparable selling prices must be adjusted to account for differences between the sale property and the donated property. Because differences of opinion may arise between appraisers as to the degree of comparability and the amount of the adjustment considered necessary for comparison purposes, an appraiser should document each item of adjustment.

Only comparable sales having the least adjustments in terms of items and/or total dollar adjustments should be considered as comparable to the donated property.

2. Capitalization of Income

This method capitalizes the net income from the property at a rate that represents a fair return on the particular investment at the particular time, considering the risks involved. The key elements are the determination of the income to be capitalized and the rate of capitalization.

3. Replacement Cost New or Reproduction Cost Minus Observed Depreciation

This method, used alone, usually does not result in a determination of fair market value. Instead, it generally tends to set the upper limit of value, particularly in periods of rising costs, because it is reasonable to assume that an informed buyer will not pay more for the real estate than it would cost to reproduce a similar property. Of course, this reasoning does not apply if a similar property cannot be created because of location, unusual construction, or some other reason. Generally, this method serves to support the value determined from other methods. When the replacement cost method is applied to ***improved realty,*** the land and improvements are valued separately.

The replacement cost of a building is figured by considering the materials, the quality of workmanship, and the number of square feet or cubic feet in the building. This cost represents the total cost of labor and material, overhead, and profit. After

the replacement cost has been figured, consideration must be given to the following factors:

Physical deterioration—the wear and tear on the building itself,

Functional obsolescence—usually in older buildings with, for example, inadequate lighting, plumbing, or heating, small rooms, or a poor floor plan, and

Economic obsolescence—outside forces causing the whole area to become less desirable.

Interest in a Business

The fair market value of any interest in a business, whether a sole proprietorship or a partnership, is the amount that a willing buyer would pay for the interest of a willing seller after consideration of all relevant factors. The relevant factors to be considered in valuing the business are:

The fair market value of the assets of the business,

The prospective earning capacity of the business, based on a review of past and current earnings, and

The other factors used in evaluating corporate stock, if they apply.

The value of the goodwill of the business should also be taken into consideration. You should keep complete financial and other information on which the valuation is based. This includes copies of reports of examinations of the business made by accountants, engineers, or any technical experts on or close to the valuation date.

Annuities, Terms for Years, Remainders, and Reversions

The value of these kinds of property is their present value, except in the case of annuities under contracts issued by companies regularly engaged in their sale. The valuation of these commercial annuity contracts and of insurance policies is discussed later under *Certain Life Insurance and Annuity Contracts.*

Actuarial tables. It is usually necessary to refer to actuarial tables to determine your charitable deduction when annuities, income from trust property, or remainder interests are transferred to a charitable organization.

Transfers before May 1, 1989. The present value of an annuity, remainder (other than those specified), or reversion that is dependent on the continuation or termination of the life of one person is figured by the use of Table A in section 20.2031–7 of the Estate Tax Regulations. The present value of an annuity, term for years, remainder, or reversion that is dependent on a term certain (definite number of years) is figured by the use of Table B in the above regulations.

The value of a remainder interest in a charitable remainder annuity trust is determined under section 1.664–2 of the Income Tax Regulations. The value of a remainder interest in a charitable remainder unitrust is determined under section 1.664–4 of the Regulations. The value of a remainder interest in a pooled income fund is determined under section 1.642(c)–6 of the Regulations.

If the valuation of the interest depends on the continuation or termination of more than one life, or on a term certain concurrent with one or more lives, a special factor must be used. Many of these factors may be found in, or can be figured with the use of, IRS Publications 723C, 723D, and 723E.

Transfers after April 30, 1989. For gifts and certain other transfers after April 30, 1989, use the valuation tables set forth in IRS Publications 1457 (Alpha Volume), and 1458 (Beta Volume). Publications 1457 and 1458 provide tables containing actuarial factors to be used in determining the present value of an annuity, an interest for life or for a term of years, or a remainder or reversionary interest. Actuarial factors for computing the value of a remainder interest in a charitable remainder annuity trust, a charitable remainder unitrust, and a pooled income fund may be found in Publications 1457 and 1458. The publications containing the complete set of tables are available for purchase from the:

Superintendent of Documents
United States Government Printing Office
Washington, D.C. 20404.

Special factors. If a special factor is needed for an actual transaction, you may ask for it by writing to the:

Internal Revenue Service
Attention: E:EP:R
P.O. Box 14073, Ben Franklin Station
Washington, D.C. 20044.

Be sure to include the date of birth of each person, the duration of whose life may affect the value of the interest, and copies of the relevant instruments. IRS is required to charge a user fee for providing special factors.

For information on the circumstances under which a charitable deduction may be allowed for the donation of a partial interest in property, see *Partial Interest in Property,* later.

Certain Life Insurance and Annuity Contracts

The value of an annuity contract or a life insurance policy issued by a company regularly engaged in the sale of such contracts or policies is the amount that company would charge for a comparable contract.

But if the donee of a life insurance policy may reasonably be expected to cash the policy rather than hold it as an investment, then the fair market value is the cash surrender value rather than the replacement cost.

If an annuity is payable under a combination annuity contract and life insurance policy (for example, a retirement income policy with a death benefit) and there was no insurance element when it was transferred to the charity, the policy is treated as an annuity contract.

Personal Services

You may not deduct the value of the ***time*** or ***services*** that you contribute to a qualified organization. For example, if you are a carpenter, you may not deduct the value of the time or services you give to make repairs on a church. Lawyers, doctors, mechanics, artists, etc., may not deduct the value of their donated time or services.

However, you may deduct unreimbursed ***out-of-pocket expenses*** you pay in giving services to a charitable organization. These include amounts you pay for transportation from your home to the place where you serve. Also, if you use your car, expenses directly related to services you give to the charitable organization, such as gas and oil, are deductible. If you do not deduct the actual car expenses incurred, you may deduct a standard mileage rate of ***12 cents a mile.***

For more information on out-of-pocket expenses that qualify for a charitable contributions deduction, see Publication 526.

Partial Interest in Property

Generally, no deduction is allowed for a charitable contribution, not made in trust, of less than your entire interest in property. However, this does not apply to a transfer of less than your entire interest if it is a transfer of:

A remainder interest in your personal residence or farm,

An undivided part of your entire interest in property, or

A qualified conservation contribution.

Valuation of a remainder interest in real property, not transferred in trust. The amount of the deduction for a donation of a remainder interest in real property is the fair market value of the remainder interest at the time of the contribution. Depreciation (figured by the straight-line method) and depletion (figured by the cost-depletion method) must be considered in determining the fair market value. This value must be reduced at the rate of 10% a year, or at some other rate set by the government.

If the remainder interest includes both depreciable and nondepreciable property, for example a house and land, the fair market value must be allocated between each kind of property at the time of the contribution. This rule also applies to a gift of a remainder interest that includes a property that is part depletable and part not depletable. Depreciation or depletion will be taken into account only for the property that is subject to depreciation or depletion.

To figure the value of a remainder interest in real property, see section 1.170A–12 of the Income Tax Regulations.

Undivided part of your entire interest. A contribution of an undivided part of your entire interest in property must consist of a part of each and every substantial interest or right you own in the property and must extend over the entire term of your interest in the property. For example, if you are entitled to the income from certain property for your life (life estate) and you contribute 20% of that life estate to a qualified organization, you can claim a deduction for the contribution if you do not have any other interest in the property. To figure the value of a contribution involving a life estate, see section 20.2031–7 of the Estate Tax Regulations.

If the only interest you own in property is a remainder interest and you transfer part of that interest to a qualified organization, see section 1.170A –12 of the Income Tax Regulations for determining the value.

Qualified conservation contribution. A qualified conservation contribution is a contribution of a qualified real property interest to a qualified organization to be used only for a conservation purpose.

Qualified organization. For purposes of a qualified conservation contribution, a qualified organization is:

1) A governmental unit.
2) A publicly supported charitable, religious, scientific, literary, educational, etc., organization.
3) An organization that is controlled by, and operated for the exclusive benefit of, a governmental unit or a publicly supported charity.

Conservation purposes. Your contribution must be made only for one of the following conservation purposes:

1) Preservation of land areas for outdoor recreation by, or for the education of, the general public.
2) Protection of a natural fish, wildlife, or plant habitat.
3) Preservation of open space, including farmland and forest land. The preservation must

yield a significant public benefit and be either for the scenic enjoyment of the general public or under a clearly defined federal, state, or local governmental conservation policy.

4) Preservation of a historically important land area or a certified historic structure. A historically important land area includes independently significant land areas and historic sites and related land areas, the physical or environmental features of which contribute to the historic or cultural importance and continuing integrity of certified historic structures. A certified historic structure is any building, structure, or land area that is listed in the National Register, or is located in a registered historic district and is certified by the Secretary of the Interior as being of historic significance to the district.

A qualified real property interest is any of the following interests in real property:

1) Your entire interest in real estate other than a mineral interest (subsurface oil, gas, or other minerals, and the right of access to these minerals).
2) A remainder interest.
3) A restriction (granted in perpetuity, that is, granted forever) on how the property may be used.

Valuation. A qualified real property interest described in (1) should be valued in a manner that is consistent with the type of interest transferred. If you owned all the interest in the property, the fair market value of the entire property less the fair market value of any mineral interest you keep is the amount of the contribution. If you owned only a remainder interest or an income interest (life estate), or if you transferred a remainder interest (item (2)), the value should be determined as previously discussed in this section.

In determining the value of restrictions, you should take into account the selling price, in arm's-length transactions, of other properties that have comparable restrictions. If there are no qualified sales, the restrictions are valued indirectly as the difference between the fair market values of the property involved before and after the grant of the restriction.

The fair market value of the property before contribution of the restriction should take into account not only current use but the likelihood that the property, without the restriction, would be developed. You should also consider any zoning, conservation, or historical preservation laws that would restrict development. The granting of an easement may increase, rather than reduce, the value of property, and in such a situation no deduction would be allowed.

Example. You own 10 acres of farmland. Similar land in the area has a fair market value of $2,000 an acre. However, land in the general area that is restricted solely to farm use has a fair market value of $1,500 an acre. Your county wants to preserve open space and prevent further development in your area.

You grant to the county an enforceable open space easement in perpetuity on 8 of the 10 acres, restricting its use to farmland. The value of this easement is $4,000, determined as follows:

Fair market value of the property before granting easement:		
$2,000 × 10 acres		$20,000
Fair market value of the property after granting easement:		
$1,500 × 8 acres	$12,000	
$2,000 × 2 acres	4,000	16,000
Value of easement		$ 4,000

If you later transfer in fee your remaining interest in the 8 acres to another qualified organization, you must consider the easement in determining the fair market value of the remaining interest.

Note: Granting an easement on part of your property can affect the value of your remaining property.

Recordkeeping

If you make charitable contributions, you must keep certain records. Information from these records is needed to substantiate deductions claimed on your tax return. The information is also needed to complete Form 8283, *Noncash Charitable Contributions,* which must be attached to your tax return if the total claimed deduction for contributed property is more than $500. The following discusses the records that you must keep and certain other substantiation requirements for contributions of property other than money. For other information on recordkeeping, see Publication 526.

Receipts. If you claim a deduction of $5,000 or less for a charitable contribution of property other than money, you must maintain for each contribution a receipt from the donee organization showing the following information:

The name of the donee,

The date and location of the contribution, and

A description of the property in detail reasonably sufficient under the circumstances. One of the circumstances to be taken into account is the fair market value of the property. Therefore, the greater the value, the more detail that is needed.

A letter or other written communication from the donee organization acknowledging receipt of the contribution, showing the date of the contribution, and containing a sufficiently detailed description of the property contributed is considered a receipt. A receipt is not required if the contribution is made in circumstances where it is impractical to obtain a receipt, for example, if the property is deposited at a charity's unattended drop site.

Written Records

In all cases you must keep reliable written records covering each item of donated property. These records must include the following information:

1) The name and address of the donee organization to which the contribution was made.
2) The date and location of the contribution.
3) A description of the property in detail reasonably sufficient under the circumstances. One of the circumstances to be taken into account is the fair market value of the property. Therefore, the greater the value, the more detail that is needed. For securities, include the name of the issuer, the type of security, and whether the security is regularly traded on a stock exchange or in an over-the-counter market.
4) The fair market value of the property at the time the contribution was made, the method used in determining the fair market value and, if an appraisal was used, a copy of the signed report of the appraiser.
5) For contributions of appreciated property, the cost or adjusted basis of the property, the reduction for the ordinary income and long-term capital gain amounts, and the manner of determining the reductions.
6) For contributions of less than your entire interest in the property, the total amount claimed as a deduction for the tax year due to the contribution of the property, the amount claimed in prior years for contributions of other interests in the property, the name and address of each organization to which any such contribution was made, the place where any such tangible property is located or kept, and the name of any person, other than the donee organization, having actual possession of the property.
7) The terms of any agreement or understanding entered into by or on your behalf that relates to the use, sale, or other disposition of the property. This includes, for example, agreements that (a) restrict temporarily or permanently the right of the organization to use or dispose of the property, (b) reserve to, or confer upon, anyone other than the organization any right to the income from or possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire, or (c) earmark donated property for a particular use.
8) For a qualified conservation contribution, the fair market value of the underlying property before and after the contribution and the conservation purpose furthered by the contribution.

Your written records must be reliable. Factors indicating that the written records are reliable include, but are not limited to:

- The contemporaneous nature of the writing evidencing the contribution.
- The regularity of your recordkeeping procedures. For example, if you regularly make contemporaneous diary entries stating the amount and date of the donation and the name of the donee organization, your diary would generally be considered a reliable written record.
- For a contribution of a small amount, the existence of any written or other evidence from the donee organization showing receipt of a donation, but not meeting the requirements of a receipt as discussed earlier. This evidence includes emblems, buttons, or other tokens traditionally associated with a charitable organization and regularly given by the organization to persons making cash donations.

Deductions of more than $500. If you make a charitable contribution of property other than money and claim a deduction of more than $500 for the contribution of that item, your written records must include the following information in addition to the eight items listed previously:

1) The manner of acquisition, such as by purchase, gift, bequest, inheritance, or exchange.
2) The approximate date you acquired the property or, if the property was created, produced, or manufactured by or for you, the approximate date the property was substantially completed.
3) The cost or adjusted basis of the property, other than publicly traded securities, held by you for a period of less than 12 months immediately preceding the date the contribution was made. When available, this information should also be shown for property held for a period of 12 months or more preceding the date the contribution was made.

Form 8283 must be completed and attached to your tax return if you claim a noncash charitable contribution deduction of more than $500.

Deductions of More Than $5,000

Generally, if the claimed deduction for an item or group of similar items of donated property is more than $5,000, you must get a qualified appraisal made by a qualified appraiser, and you must attach an appraisal summary (Section B of Form 8283) to your tax return. See *Appraisals*, later. You should keep the appraiser's report with your written records, described earlier. For special rules that apply to publicly traded securities and nonpublicly traded stock, see the discussions later in this section.

The phrase ***similar items*** means property of the same generic category or type (whether or not donated to the same donee), such as stamps, coins, lithographs, paintings, photographs, books, nonpublicly traded stock, nonpublicly traded securities other than nonpublicly traded stock, land, buildings, clothing, jewelry, furniture, electronic equipment, household appliances, toys, everyday kitchenware, china, crystal, or silver. For example, if you give books to three schools and you deduct $2,000, $2,500, and $900, respectively, your claimed deduction is more than $5,000 for these books. You must get a qualified appraisal of the books and for each school you must attach a fully completed appraisal summary (Section B of Form 8283) to your tax return.

Publicly traded securities. Neither a qualified appraisal nor an appraisal summary is required for publicly traded securities that are either:

- Listed on a stock exchange in which quotations are published on a daily basis, or
- Regularly traded in a national or regional over-the-counter market for which published quotations are available.

A partially completed appraisal summary (Parts I and II of Section B, Form 8283), but not a qualified appraisal, is required for publicly traded securities that do not meet either of those requirements, but that meet the following five requirements:

1) The issue is regularly traded during the computation period in a market for which there is an interdealer quotation system,
2) The issuer or agent computes the "average trading price" for the same issue for the computation period,
3) The average trading price and total volume of the issue during the computation period are published in a newspaper of general circulation not later than the last day of the month following the end of the calendar quarter in which the computation period ends,
4) The issuer or agent keeps books and records that list for each transaction the date of settlement of the transaction, the name and address of the broker or dealer making the market in which the transaction occurred, and the trading price and volume, and
5) The issuer or agent permits the Internal Revenue Service to review the books and records described in paragraph (4) with respect to transactions during the computation period upon receiving reasonable notice.

An ***interdealer quotation system*** is any system of general circulation to brokers and dealers that regularly disseminates quotations of obligations by two or more identified brokers or dealers who are not related to either the issuer or agent who computes the average trading price of the security. A quotation sheet prepared and distributed by a broker or dealer in the regular course of business and containing only quotations of that broker or dealer is not an interdealer quotation system.

The ***average trading price*** is the mean price of all transactions (weighted by volume), other than original issue or redemption transactions, conducted through a United States office of a broker or dealer who maintains a market in the issue of the security during the computation period. Bid and asked quotations are not taken into account.

The ***computation period*** is weekly during October through December and monthly during January through September. The weekly computation periods during October through December begin with the first Monday in October and end with the first Sunday following the last Monday in December.

Nonpublicly traded stock. If you contribute nonpublicly traded stock, for which you claim a deduction of more than $5,000 but not more than $10,000, a qualified appraisal is not required. However, you must attach a partially completed appraisal summary (Parts I and II of Section B, Form 8283) to your tax return.

Appraisals

Appraisals are not always necessary, particularly for items of property valued at $500 or less, or for which the value can easily be determined, such as securities whose prices are reported daily in the newspapers. However, you generally will need an appraisal for donated property with a value of more than $5,000. See *Qualified Appraisal*, next.

The weight given an appraisal depends on the completeness of the report, the qualifications of the appraiser, and the appraiser's demonstrated knowledge of the donated property. An appraisal must give all the facts on which to base an intelligent judgment of the value of the property.

The appraisal will not be given much weight if:

- All the factors that apply are not considered,
- The opinion is not supported with facts, such as purchase cost and comparable sales, or
- The opinion is not consistent with known facts.

The appraiser's opinion is never more valid than the facts on which it is based; without these facts it is simply a guess.

Membership in professional appraisal or dealer organizations does not automatically establish the appraisor's competency. Nor does the lack of certificates, memberships, etc., automatically disprove the competency of the appraiser.

The opinion of a person claiming to be an expert is not binding on the Internal Revenue Service. All facts associated with the donation must be considered.

Cost of appraisals. You may not take a charitable contribution deduction for fees you pay for appraisals of your donated property. However, they may qualify as a miscellaneous deduction, subject to the 2% limit, on Schedule A (Form 1040) if they were paid to determine the amount allowable as a charitable contribution.

Qualified Appraisal

Generally, if the claimed deduction for an item of donated property is more than $5,000, you must get a qualified appraisal made by a qualified appraiser and you must attach an appraisal summary to your tax return. See *Deductions of More Than $5,000*, under *Recordkeeping*, earlier.

A qualified appraisal is an appraisal document that:

- Relates to an appraisal made not earlier than 60 days prior to the date of contribution of the appraised property,
- Does not involve a prohibited appraisal fee,
- Includes certain information (covered later), and
- Is prepared, signed, and dated by a qualified appraiser (defined later).

You must receive the qualified appraisal before the due date, including extensions, of the return on which a charitable contribution deduction is first claimed for the donated property. If the deduction is first claimed on an amended return, the qualified appraisal must be received before the date on which the return is filed.

An appraisal summary (discussed later) must be attached to your tax return. Generally, you do not need to attach the qualified appraisal itself, but you should keep a copy as long as it may be relevant under the tax law. If you donated art valued at $20,000 or more, however, you may have to attach the complete appraisal. See *Paintings, Antiques, and Other Objects of Art*, discussed earlier under *Valuation of Various Kinds of Property*.

Prohibited appraisal fee. No part of the fee arrangement for a qualified appraisal can be based on a percentage of the appraised value of the property. (If a fee arrangement is based on what is allowed as a deduction, after Internal Revenue Service examination or otherwise, it is treated as a fee based on a percentage of appraised value.) However, this rule does not apply to a fee paid to a generally recognized association that regulates appraisers if:

- The association is not organized for profit and no part of the net earnings benefits any private shareholder or individual,
- The appraiser does not receive any compensation from the association or any other persons for making the appraisal, and
- The fee arrangement is not based in whole or in part on the amount of the appraised value that is allowed as a deduction after an Internal Revenue Service examination or otherwise.

Information included in qualified appraisal. A qualified appraisal must include the following information:

1) A description of the property in sufficient detail for a person who is not generally familiar with the type of property to determine that the property appraised is the property that was (or will be) contributed,
2) The physical condition of any tangible property,
3) The date (or expected date) of contribution,
4) The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor (see item 7 of *Written Records*, earlier, under *Recordkeeping*),
5) The name, address, and taxpayer identification number of the qualified appraiser and, if the appraiser is a partner, an employee, or an independent contractor engaged by a person other than the donor, the name, address, and taxpayer identification number of the partnership or the person who employs or engages the appraiser,
6) The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education, and any membership in professional appraisal associations,
7) A statement that the appraisal was prepared for income tax purposes,
8) The date (or dates) on which the property was valued,
9) The appraised fair market value on the date (or expected date) of contribution,
10) The method of valuation used to determine fair market value, such as the income approach, the comparable sales or market data approach, or the replacement cost less depreciation approach,
11) The specific basis for the valuation, such as any specific comparable sales transaction, and
12) A description of the fee arrangement between the donor and appraiser.

Examples of information that should be included in a description of donated property follow. These examples are for art objects, but the same kind of detailed information may be given for other property. Appraisals of art objects—paintings in particular—should include:

1) A complete description of the object, indicating the size, the subject matter, the medium, the name of the artist, and the approximate date created.
2) A history of the ownership and public exhibitions of the item, including such proof of authenticity as a certificate of authenticity and citations in literature.
3) A photograph of a size and quality fully showing the object, preferably an 8 inch × 10 inch color print, or a color transparency no smaller than 4 inches × 5 inches.
4) The facts on which the appraisal was based, such as:

   Sales or analyses of similar works by the artist, particularly on or around the valuation date,

   For a living artist, prices in dealers' catalogs of the artist's works, and

   The state of the art market at the time of valuation, particularly with respect to the specific artist, school, or price range.

A separate qualified appraisal is required for each item of property that is not included in a group of similar items of property. You need only one qualified appraisal for a group of similar items of property contributed in the same tax year, but you may get separate appraisals for each item. A qualified appraisal for a group of similar items must provide all of the required information for each item of similar property. The appraiser, however, may provide a group description for selected items whose total value is not more than $100.

Qualified appraiser. A qualified appraiser is an individual who declares on the appraisal summary that he or she:

Holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis,

Is qualified to make appraisals of the type of property being valued,

Is not an excluded individual, and

Understands the penalty for aiding and abetting an understatement of tax liability.

An appraiser must complete Part IV of Section B (Form 8283) to be considered a qualified appraiser. More than one appraiser may appraise the property, provided that each complies with the requirements, including signing the qualified appraisal and appraisal summary.

Excluded individuals. The following persons cannot be qualified appraisers with respect to particular property:

1) The donor of the property.
2) The donee of the property.
3) A party to the transaction in which the donor acquired the property being appraised, unless the property is donated within 2 months of the date of acquisition and its appraised value does not exceed its acquisition price. This applies to the person who sold, exchanged, or gave the property to the donor, or any person who acted as an agent for the transferor or donor in the transaction.
4) Any person employed by, or related (or, for appraisals made after June 6, 1988, married to a person who is related) under section 267(b) of the Internal Revenue Code, to any of the above persons. For example, if the donor acquired a painting from an art dealer, neither the dealer nor persons employed by the dealer can be qualified appraisers for that painting.
5) An appraiser who is regularly used by a person in (1), (2), or (3), and who does not perform a majority of his or her appraisals made during his or her tax year for other persons.

In addition, a person is not a qualified appraiser for a particular donation if the donor had knowledge of facts that would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. For example, if a donor makes an agreement with the appraiser that the property will be valued at more than its fair market value, the appraiser is not a qualified appraiser for the donation.

Penalties. Any appraiser who falsely or fraudulently overstates the value of property described in a qualified appraisal or an appraisal summary that the appraiser has signed may be subject to a civil penalty for aiding and abetting an understatement of tax liability, and may have his or her appraisals disregarded.

Appraisal Summary

Generally, if the claimed deduction for an item of donated property is more than $5,000, you must attach an appraisal summary to your tax return. Only a partially completed appraisal summary is required in some situations. See *Deductions of More Than $5,000* under *Recordkeeping*, earlier.

Note: If you deduct $20,000 or more for donated art, you may have to attach the complete appraisal. See *Paintings, Antiques, and Other Objects of Art*, discussed earlier under *Valuation of Various Kinds of Property*.

Form 8283. Section B of Form 8283 is the appraisal summary. You must complete and attach the form to your return. If you fail to attach the form, the deduction will not be allowed unless your failure was due to a good faith omission. If the IRS requests that you submit the form because you did not attach it to your return, you must comply within 90 days of the request or the deduction will be disallowed.

A separate Form 8283 for each item of contributed property must be attached to the return. If you contribute similar items of property to the same donee organization, you need attach only one Form 8283 for those items. If you contribute similar items of property to more than one donee organization, you must attach a separate form for each donee.

The following is a brief description of the appraisal summary. See the Form 8283 instructions for more information.

Part I, Donee Acknowledgement, is completed by the charitable organization. This part must be signed by an official authorized to sign the tax or information returns of the donee organization, or by a person authorized by such an official to sign Form 8283. The signature does not indicate agreement with the appraised value of the property. It represents acknowledgement of receipt of the property on the date specified on the form. It also acknowledges that the organization understands its information reporting requirements if it disposes of the property in any way within 2 years after the date of receipt. In this situation, the organization usually must file Form 8282, *Donee Information Return*, and send you a copy of that form.

However, the donee is not required to report the disposition of a charitable deduction property if the appraisal summary signed by the donee contains, at the time of the donee's signature, a statement signed by the donor that the appraised value of an item does not exceed $500. If the appraisal summary includes more than one item, the reporting exception applies only to the item clearly identified as having a value of $500 or less.

The donee is also not required to report the disposition of a charitable deduction property if the donee consumes or distributes the item without payment for a purpose or function which is a basis for its charitable exemption. For example, no reporting is required for medical supplies consumed or distributed by a tax-exempt relief organization in aiding disaster victims.

After completing Part I of Section B (Form 8283), the donee organization will return the form to you.

Part II, Information on Donated Property, is completed by you or the appraiser. The information needed for this part should come from the qualified appraisal and your written records.

Part III, Taxpayer (Donor) Statement. If you complete Part III, the donee is relieved of filing Form 8282, *Donee Information Return*, for items having a value of $500 or less.

Part IV, Certification of Appraiser, is completed by the appraiser of the property. This section must be completed for the appraiser to be considered a qualified appraiser.

Internal Revenue Service Review of Appraisals

In reviewing an income tax return, the Service may accept the claimed value of the donated property, based on information or appraisals sent with the return, or may make its own determination of fair market value. In either case, the Service may:

Contact the taxpayer to get more information,

Refer the valuation problem to a Service appraiser or valuation specialist,

Refer the issue to the Commissioner's Art Advisory Panel (a 12-member group of dealers and museum directors who review and recommend acceptance or adjustment of taxpayers' claimed values for major paintings, sculptures, or antiques), or

Contract with an independent dealer, scholar, or appraiser to appraise the property when the objects require appraisers of highly specialized experience and knowledge.

The Service is responsible for reviewing appraisals, but it is not responsible for making them. Supporting the fair market value listed on your return is your responsibility.

The Service does not give recognition to any appraiser or organization of appraisers and does not accept their appraisals without question.

The Service does not approve valuations or appraisals before the actual filing of the tax return to which the appraisal applies. In addition, the Service does not issue advance rulings approving or disapproving such appraisals.

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General Guides

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17 ..... Your Federal Income Tax
225 ..... Farmer's Tax Guide
334 ..... Tax Guide for Small Business
509 ..... Tax Calendars for 1991
553 ..... Highlights of 1990 Tax Changes
595 ..... Tax Guide for Commercial Fishermen
910 ..... Guide to Free Tax Services

Specialized Publications

3 ..... Tax Information for Military Personnel
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1244 ..... Employee's Daily Record of Tips (Form 4070-A) and Employee's Report of Tips to Employer (Form 4070)
1544 ..... Reporting Cash Payments of Over $10,000

Spanish Language Publications

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556S ..... Revisión de las Declaraciones de Impuesto, Derecho de Apelación y Reclamaciones de Reembolsos
579S ..... Cómo Preparar la Declaración de Impuesto Federal
586S ..... Proceso de Cobro (Deudas del Impuesto Sobre Ingreso)
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